



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: August 23, 2011

TO: Mayor and Councilmembers

FROM: Administration Division, Finance Department

SUBJECT: Recycling Revenue Sharing Agreement Between The City Of Santa Barbara And County Of Santa Barbara

RECOMMENDATION:

That Council approve an agreement between the City and County of Santa Barbara for the processing of greenwaste and the processing and sharing of revenues and costs associated with commingled recyclables delivered to County facilities.

EXECUTIVE SUMMARY:

Staff is recommending a continuation of the current arrangement for processing commingled recyclables, which includes using the County to handle and transport the materials to Gold Coast Recycling, a private contractor, for processing. Currently, the County and the Cities of Santa Barbara and Goleta are part of this arrangement, which results in revenues from the sale of the recyclable materials that are shared by the three agencies.

The proposed agreement was presented to the Sustainability Committee on June 23rd and July 19th, who recommended Council approval by a vote of 2-1.

The Committee also considered an unsolicited proposal from Allied Waste (see attached letter proposal). The proposal was presented exclusively to the City and provides for a guaranteed payment to the City of \$60 per ton through June 30, 2012. Staff also evaluated a previous proposal from Allied Waste of \$45 per ton, which staff recommended against due to the long-term uncertainty associated with the proposal as well as the negative financial impacts to the County. The more current proposal would generate approximately \$500,000 in the current fiscal year (assuming an October 2011 start date). However, staff has the same concerns with respect to the long-term uncertainties related to the proposal.

In connection with its recommendations, the Committee directed staff to include in the report to Council (1) the financial implications of the second proposal from Allied Waste and (2) the financial impacts to the County if the City were to accept Allied Waste's proposal.

DISCUSSION:

For many years, the City has directed its comingled recyclables collected in carts and cans to the County of Santa Barbara's Recycling Center. These materials are transported by the County to Gold Coast Recycling Center in Ventura where the materials are processed through a materials recovery facility ("MRF"). After deducting the processing fees and transportation costs, the County has historically generated a fair amount of revenue from the sale of the recyclable materials.

Starting in Fiscal Year 2009, the City and County entered into an agreement whereby the portion of net revenues attributable to comingled recyclables collected within the City of Santa Barbara would be paid to the City. A similar agreement was entered into between the County and the City of Goleta.

The most recent agreement between the City of Santa Barbara and the County expired as of June 30, 2010. Although the City and County have continued to share these revenues, it is appropriate to execute an official agreement that spells out the specific terms and conditions. The agreement will be retroactively effective beginning on July 1, 2010, and will include the parties' performance under the terms of this agreement since July 1, 2010. The agreement shall be automatically renewed as of July 1 each year, unless terminated by either party as outlined in the agreement.

The key terms and conditions of the proposed agreement were presented to the Sustainability Committee over two meetings on June 23rd and July 19th. In the end, the Committee recommended approval of the agreement by a vote of 2-1.

Key terms and conditions relative to comingled recyclables include:

- Each year, by March 31, the County will calculate the net revenue (or net cost) using County financial and non-financial data from the immediately preceding fiscal year (i.e., two-year old data). For Fiscal Years 2011 through 2013, staff is recommending the use of a three-year average, as described later in the report. The net revenue (or net cost) will be allocated to the City in proportion to the total tonnage of mixed recyclables delivered to the County Recycling Center as recorded on the scales.
- The City shall reimburse the County for all costs associated with administering and operating the program including but not limited to: program coordination, handling, storage, transport, processing, and disposal of residual.
- The County will be responsible for negotiating the terms for processing, conducting bi-annual waste sorts and administering the contract with the subcontractor.

Temporary Change in Methodology (Three-Year Average)

For Fiscal Years 2011 through 2013, staff is recommending a change in the methodology used to calculate the City's share of revenues. The purpose of this temporary departure from the traditional methodology (as described in the previous section of this agenda report) is to smooth out the impacts created from the extraordinary economic circumstances affecting the value of recyclable materials during Fiscal Year 2009. The two methodologies are presented in the table below.

<u>Fiscal Year</u>	<u>Using 2-Year Old Data</u>	<u>Using 3-Year Averaging</u>
2011	\$ (37,619)	\$ 269,864
2012	376,040	269,864
2013	471,171	269,864
Totals	<u>\$ 809,592</u>	<u>\$ 809,592</u>

The benefit of changing to a 3-year average is to spread the impacts of the loss affecting Fiscal Year 2011 over a three-year period. This staff recommended change was supported by the Sustainability Committee.

Provisions Related to Greenwaste Processing:

The attached agreement also contains terms and conditions for greenwaste collected within the City and processed by the County.

For many years, the City has directed its contracted haulers to deliver greenwaste collected within the City to the County's Transfer Station. The greenwaste is ground up and made into mulch that is either sold or given away. The City currently pays the County \$48 per ton, which is approximately \$700,000 per year based on current tonnage data.

Over the last few years, there has been an expressed interest of expanding the City's current foodscrap collection and composting program into the residential sectors. One of the identified and perhaps most efficient ways of providing this service to residents would be to consolidate foodscrap with greenwaste into the existing greenwaste container. This approach has merit since it avoids establishing a new container or creating new collection routes. In addition, creating compost is ideal when foodscrap are mixed with greenwaste.

The downside to this approach, however, is that directing greenwaste away from the County to the City's composting contractor would result in an immediate loss of revenues to the County.

The City Council has already directed staff to hold off expanding foodscrap collection and composting into the residential sectors until the current procurement process for conversion technology (CT) is further along since the type of technology selected could have a bearing on whether and, if so, how the City moves forward with foodscrap collection in the residential sector.

In light of this uncertainty, the attached agreement contains the following provisions:

- The City will provide the County with a 12-month written notice prior to discontinuing its current practice of directing greenwaste that is collected within the City limits pursuant to its solid waste franchise agreement(s) to a County of Santa Barbara facility for processing at a rate set annually by the Board of Supervisors..

An exception to this is if any redirection of the City's greenwaste is part of a regional solution and decision associated with a potentially new conversion technology facility.

- In recognition of the financial impacts to the County resulting from the loss of revenues currently generated from the processing of greenwaste collected by the City's refuse hauler and delivered to the County Recycling Center, the County will be entitled to suspend payment of any net revenues owed to the City from the processing of commingled recyclables.

The expectation is that some agreement for addressing the impacts to the County would be reached prior to the implementation of such a program that negatively affects County revenues.

Unsolicited Proposal from Allied Waste for Processing City Recyclables

On June 18, the City received an unsolicited proposal from Stephen MacIntosh, General Manager of Allied Waste, for processing the City's commingled recyclables. The proposal offered to pay the City \$45 per ton, which would include Allied Waste transporting and processing the materials at the Del Norte Materials Recovery facility owned by and located in the City of Oxnard, California. Allied Waste currently operates the Del Norte facility under contract with the City of Oxnard.

The proposal was considered by the Sustainability Committee on June 23rd. At that meeting, staff was directed to more thoroughly evaluate Allied Waste's proposal and to return with information regarding the financial impacts to the County if the City were to accept the Allied Waste's proposal.

At the subsequent meeting of July 19th, the Sustainability Committee heard a report from staff recommending approval of the proposed agreement between the County and City. At the meeting, Stephen MacIntosh verbally presented a second and more attractive offer to the City of \$60 per ton (see attached letter proposal received after the date of the

meeting). Based on a transition date of October 1, this latest offer would result in approximately \$500,000 in revenues to the City in Fiscal Year 2012.

Although Allied Waste's proposal of \$60 per ton is higher than the recent amounts generated through Gold Coast via the County, the current arrangement appears to be more financially viable due to some uncertainties and/or unknowns contained in Allied Waste's proposal. The key concerns are:

- Allied Waste's contract for operating the Del Norte Facility expires in February 2012. Unless they can negotiate a contract extension, Allied Waste would have to send the materials to another facility from February to June 2012. At that point, the City would need to find another means for hauling the material and potentially a new processor.
- While accepting the Allied Waste proposal would generate \$500,000 in revenues to the City in Fiscal Year 2012, the current proposed agreement with the County would generate a total of \$809,592 through June 30, 2013. The City would have to generate at least \$309,592 in Fiscal Year 2013 through an agreement with Allied Waste (or a successor) to make a change more financially beneficial to the City. However, given the uncertainty beyond the current fiscal year, the City would essentially be taking somewhat of a gamble, particularly given the volatility in the value of recyclable materials.

After lengthy deliberations, the Committee voted 2-1 to recommend approval by Council with the proposed agreement between the City and County. In addition, the Committee directed staff to include a discussion of Allied Waste's proposal and additional information regarding the financial impacts to the County if the City were to shift to the Allied Waste/Del Norte option.

Potential Financial Impacts to County

The Sustainability Committee requested information of the County regarding the financial impacts to the County if the City accepted the proposal from Allied Waste.

In general terms, the impacts would include the loss of revenues that currently cover a portion of County fixed, costs, such as equipment and staffing, used to handle the materials at the Transfer Station, transport the materials to Gold Coast and administer the Gold Coast contract. However, actual dollar impacts to the County are not available.

BUDGETARY AND FINANCIAL IMPACT:

A total of \$376,000 is currently budgeted in the Solid Waste Fund for the current fiscal year. The impact of this agreement, with the proposed change to a three-year average methodology, will be an increase in revenues of approximately \$160,000.

ATTACHMENTS: 1. Recycling Revenue Sharing Agreement
2. Letter proposal from Allied Waste dated August 1, 2011

SUBMITTED BY: Robert Samario, Finance Director

APPROVED BY: City Administrator's Office

**Agreement Between the City and County of Santa Barbara for the Processing of
Greenwaste and the Processing and Sharing of Revenues and Costs Associated
with Commingled Recyclables Delivered to County Facilities**

City Agreement No. _____

THIS AGREEMENT, entered into this _____ day of _____, 2011, between the **CITY OF SANTA BARBARA**, a municipal corporation in Santa Barbara County, California, hereinafter referred to as "City", and **COUNTY OF SANTA BARBARA**, a political subdivision of the State of California, hereinafter referred to as "County",

WITNESSETH:

WHEREAS, the City and County, in order to protect and maintain the health, safety and welfare of its citizens, finds it necessary to provide an integrated solid waste management program, including source reduction and recycling activities;

WHEREAS, the City and County have found it more appropriate and effective to offer many solid waste management programs on a regional basis, including the processing of commingled recyclables and greenwaste, and the landfilling of municipal solid waste; and

WHEREAS, the County has provided these regional services to the City and the region beginning in 1967 and has developed, expanded and funded these services to benefit the community, protect the environment and comply with applicable solid waste rules and regulations; and

WHEREAS, the California Integrated Waste Management Act of 1989 (commonly referred to as AB 939), mandates that cities and counties prepare and implement plans for the diversion of solid waste from disposal; and

WHEREAS, the County owns and operates the South Coast Recycling & Transfer Station (hereinafter "County Recycling Center") where the City's franchised haulers have historically delivered commingled recyclables from the City's commercial and residential customers using carts and cans; and

WHEREAS, the County contracts with a private company (subcontractor) to process commingled recyclables generated by the Cities of Santa Barbara and Goleta, and the unincorporated area in the south county; and

WHEREAS, the County transports the commingled recyclables delivered to the County Recycling Center to the subcontractor's facility and backhauls residual waste from the sorting process for disposal at the Tajiguas Landfill; and

WHEREAS, the City and County are willing to share in both the costs incurred and revenues realized by the County associated with the handling and processing of commingled recyclables in accordance with the terms and conditions hereinafter set forth;

WHEREAS, it is the intent of the City and County to work cooperatively and within a regional framework in advancing new projects and programs and addressing the financial impacts they may create; and

WHEREAS, the City and County entered into an “Agreement for the Processing and Sharing of Revenues and Costs Associated with Commingled Recyclables Delivered to County Facilities Between the City and County of Santa Barbara” in 2008; and

WHEREAS, under this Agreement the City and County have shared in both the costs incurred and revenues realized by the County associated with the handling and processing of the City's commingled recyclables in accordance with the terms and conditions set forth therein; and

WHEREAS, this Agreement expired on June 30, 2010 and the City and the County have continued to perform under the agreement and intend to continue to perform under this agreement for an indefinite period; and

WHEREAS, the City currently utilizes the services of the County for processing green waste collected by the City's franchised haulers and the City and County wish to provide for reasonable notice to the County prior to discontinuing this arrangement.

I. CONSIDERATION

In consideration of the City's delivery through its franchised hauler of commingled recyclables to a County of Santa Barbara facility, and the City's delivery of green waste collected within the City limits by its franchise hauler to a County of Santa Barbara facility for processing at a specified rate per ton annually set by the Board of Supervisors, the County agrees to share the costs and revenues associated with the handling and marketing of the commingled recyclables with the City as set forth in this Agreement.

II. TIMING AND METHOD OF PAYMENT

Payment of net revenues (or costs) will be in two equal installments, with the first installment due on December 31 and the second installment due on June 30 each year this agreement is in effect.

Payments should be remitted to:

Finance Department
City of Santa Barbara
P.O. Box 1990
Santa Barbara, CA 93102-1990

Resource Recovery and Waste Management
130 E. Victoria Street – Suite 100
Santa Barbara, CA 93101

III. METHODOLOGY FOR CALCULATING SHARED REVENUES AND COSTS

The County agrees to pay to the City by March 31st of each year the net revenues associated with the County's handling and marketing of the commingled recyclables in exchange for the City's continued delivery of its commingled recyclables (as collected from City solid waste customers using carts and cans) to the County Recycling Center.

Each year, by March 31, the County will calculate the net revenue (or net cost) using County financial and non-financial data from the immediately preceding fiscal year in accordance with the accounting methodology acceptable to the City and the County attached hereto as Exhibit A. The net revenue (or net cost) will be paid to the City in proportion to the total tonnage of mixed recyclables delivered to the County Recycling Center as recorded on the scales.

The City shall reimburse the County for all costs associated with administering and operating the program including but not limited to: program coordination, handling, storage, transport, processing, and disposal.

The County will be responsible for negotiating the terms for processing, conducting bi-annual waste sorts and administering the contract with the subcontractor.

IV. MAINTAINING QUALITY OF COMMINGLED RECYCLABLES

The value and sortability of the commingled recyclables is determined by the quality of material collected by the franchisee and delivered to the County Recycling Center. If County staff identifies an increase in the contamination of commingled recyclables received at the County facility, efforts will be made by the City and County to minimize contamination through greater public education efforts or route modifications.

V. PROCESSING OF GREEN WASTE

The City by action of the City Council agrees to provide the County with a 12-month written notice of a City decision to discontinue its current practice of directing green waste that is collected within the City limits (pursuant to its solid waste franchise agreement(s)) to a County of Santa Barbara facility for processing at a rate set annually by the Board of Supervisors.

In recognition of the financial impacts to the County resulting from the loss of revenues currently generated from the processing of greenwaste collected by the City's refuse hauler and delivered to the County Recycling Center, the County will be entitled to retain all net revenues otherwise payable to the City under Section III of this agreement and the City may dispose of its recyclable materials as the City deems appropriate and this agreement shall be terminated.

The County shall not be entitled to suspend payment to the City should the City direct its greenwaste to a facility other than a County of Santa Barbara facility, such as an anaerobic digester or conversion technology facility, as part of a regional solution to reduce landfill disposal.

VI. RECORD KEEPING

The County of Santa Barbara, Public Works Department, Resource Recovery and Waste Management Division, shall keep financial and accounting records.

Each year, the County shall provide to the City Finance Department, by March 31 for following fiscal year, an updated calculation itemizing costs and revenues associated with the commingled recycling program.

All funds received shall be properly accounted for and reported as required by law and generally accepted accounting principles.

VII. TERM OF CONTRACT

The agreement will be effective beginning on July 1, 2010, and will include the parties' performance under the terms of this agreement since July 1, 2010. The agreement shall be automatically renewed as of July 1 each year, unless terminated by either party as outlined herein.

VIII. TERMINATION

City or County may terminate this Agreement without cause by providing the other party with a 12-month written notice of such termination.

IX. OWNERSHIP OF DOCUMENTS

All reports and documents prepared by County under this contract are the property of the County.

X. SECTION HEADINGS

The section headings appearing herein shall not be deemed to govern, limit, modify or in any manner affect the scope, meaning or intent of the provisions of this Agreement.

XI. INTERPRETATION

The terms and conditions of this contract shall be construed pursuant to their plain and ordinary meaning and shall not be interpreted against the maker by virtue of that party having drafted the Agreement.

XII. NOTICES

Any notices required pursuant to this Contract shall be served at the following addresses:

Robert Samario
Finance Director
City of Santa Barbara
Finance Department
735 Anacapa Street
Santa Barbara, CA 93101

Mark Schleich
Deputy Director, Public Works
County of Santa Barbara
Resource Recovery &
Waste Management Division
130 E. Victoria Street, Suite 100
Santa Barbara, CA 93101

XIII. PROJECT MANAGERS

The project managers designated by each party to this Agreement for the administration and implementation of this Agreement are:

- a. **City** Finance Director, City of Santa Barbara
- b. **County** Deputy Director of Public Works, County of Santa Barbara

The designation of project managers by each party to this Agreement may be amended by each party by written notice without the need for modification of the entire Agreement as provided in Section X, herein.

XIV. MODIFICATION

This is a full and final statement of the agreement between the parties of this Agreement. No modification of this Agreement shall be valid unless evidenced in writing and executed by the parties hereto.

XV. CALIFORNIA LAW TO APPLY

This Agreement shall be construed and be in accordance with the laws of the State of California.

XVI. COMPLIANCE WITH LAWS AND REGULATIONS

County shall comply with all State, Federal, County, City and other local laws and regulations applicable to the scope of work and services to be performed hereunder, and shall obtain all licenses and permits required by any public entity to carry out the terms of this Agreement and be responsible for the cost of said licenses and permits.

XVII. SEVERABILITY

If any term, covenant, condition, provision or agreement contained in this Agreement is held to be invalid, void or unenforceable by any court of competent jurisdiction, the invalidity of any such term, covenant, condition, provision or agreement shall in no way affect any other term, covenant, condition, provision or agreement, and the remainder of this Agreement shall still be in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed by their duly authorized officers, on the day and year first above written.

CITY OF SANTA BARBARA
A Municipal Corporation

APPROVED AS TO CONTENT:

ROBERT SAMARIO
CITY FINANCE DIRECTOR

Robert Samario

JAMES L. ARMSTRONG
CITY ADMINISTRATOR

James Armstrong

ATTEST:

CYNTHIA M. RODRIGUEZ, CMC
CITY CLERK SERVICES MANAGER

Cynthia M. Rodriguez, CMC

APPROVED AS TO FORM:

STEPHEN P. WILEY
CITY ATTORNEY

Stephen P. Wiley

COUNTY OF SANTA BARBARA

Date: _____

By: _____

JONI GRAY, CHAIR
Board of Supervisors

ATTEST:

CHANDRA L. WALLAR
CLERK OF THE BOARD

APPROVED AS TO FORM:

RAY AROMATORIO
RISK MANAGEMENT

By: _____
Deputy

By: _____
Risk Manager

APPROVED AS TO FORM:

DENNIS A. MARSHALL,
COUNTY COUNSEL

**APPROVED AS TO ACCOUNTING
FORM:**

ROBERT W. GEIS, CPA
AUDITOR-CONTROLLER

By: _____
Deputy

By: _____
Deputy

APPROVED AS TO CONTENT:

SCOTT D. MCGOLPIN
PUBLIC WORKS DIRECTOR

By: _____

**Methodology for Calculating Shared Revenues and Costs Associated
With the Processing and Sale of Commingled Recyclables**

BACKGROUND

The County of Santa Barbara currently handles much of the commingled recyclables collected on the south coast at the County-owned South Coast Recycling & Transfer Station (SCRTS). Specifically, it handles materials collected by the City of Santa Barbara, the City of Goleta, and the unincorporated areas serviced by the County directly. Contracted refuse haulers collect the recyclables from commercial, single family residential and multi-unit residential customers and deliver them to the SCRTS.

The materials are transported by County-owned trucks to Gold Coast Material Recovery Facility (Gold Coast), a privately owned recycling center. The County is charged a tipping fee by Gold Coast.

Gold Coast sells the recyclables at a price that varies by material type. The gross revenue realized by Gold Coast is dependent upon the market price and mix of the commodities, which vary from month to month.

Gold Coast remits 90% of the value of the amount delivered by the County based on the weight of the materials and the current market price. The 10% discount is based on the fact that a portion of the materials cannot be sold.

Any residual left from the initial sorting that is not recyclable is taken by County trucks and delivered to the County-owned and operated Tajiguas Landfill. Although the County does not charge its own trucks a tipping fee for dumping the residual at its landfill, there is a cost associated with the consumption of "air space."

METHODOLOGY FOR CALCULATING FULLY-ALLOCATED COSTS

Net revenues to be shared among the participating agencies are calculated using data from the fiscal year that ended one year before the start of the fiscal year for which the payments are paid. For example, for payments made in fiscal year 2008, which began July 1, 2007, the date for the fiscal year ended June 30, 2006, would be used to calculate those payments.

For the fiscal years ending on June 30, 2009, June 30, 2010 and June 30, 2011, net revenues owed to the City of Santa Barbara shall be calculated by taking an average of net revenues over the same time period. Net revenues owed to the City of Santa Barbara for the fiscal year ending on June 30, 2014 shall be calculated two years in arrears as set forth above.

The County accounts for all of its costs in a separate enterprise fund, called the Resource Recovery & Waste Management Fund (#1930). The operations fall within the Public Works Department (#054). The revenues and costs subject to sharing costs and determining net revenues are those related to curbside recyclables collected in carts and cans in the South County.

The County has established a program/cost center, called the South Coast Curbside Recycling Program (#113301) where direct costs associated with commingled recyclables are captured. However, other costs (primarily indirect and overhead) allocable to this program are captured in other various cost centers. Therefore, a number of cost allocations, along with related assumptions imbedded within the allocation bases, have been used to calculate the “fully burdened” cost of the Curbside Recycling Program.

In broad terms, the methodology used to allocate net revenues associated with the South Coast Curbside Recycling Program requires the calculation of the following elements:

1. Direct Program Costs
2. Indirect (Operational) Program Costs
3. Departmental Overhead Costs
4. Disposal of Residual Delivered to Tajiguas

Direct Costs

The direct costs associated with recycling include costs accounted for in Curbside Recycling Program/Cost Center (113301). This program is accounted for in the Resource Recovery and Waste Management Fund (1930), within the Public Works Department (054).

The costs included in cost center 113301 include direct labor costs and tipping fees paid to Gold Coast (South County) for handling recyclable materials.

The labor costs are associated with four (4) operational areas: (1) Contract Management; (2) Recycling Promotions; (3) Transportation; and, (4) Pad Operations.

The allocation of *direct* labor costs are based on actual labor hours charged through employee timesheets; no manual secondary or offline allocations are performed.

Indirect (Operational) Costs

Indirect (operational) costs include Facility and Equipment Cost Allocations, Operational Administration (i.e., administrative overhead), General Recycling Services Allocation (i.e. general administrative overhead), and Program Promotions. The methodology used to allocate each of these costs is discussed below.

Facility & Equipment - These costs include all costs associated with the repair and maintenance of equipment attributable to recycling operations at the SCRTS. The costs include: (1) Fuel; (2) Equipment Expense; (3) Depreciation; and, (4) Facility Costs. These costs are tracked separately by program by the vehicle and facility maintenance operations, including costs attributable to the Recycling Program/Cost Center (113301).

Operations Administration – These costs are for the administration (supervision) of the maintenance and repair of vehicles and equipment. An overhead rate is applied to direct labor costs (5.8% in 2010), as well as costs for supplies, accounted for in cost centers 114510, 112200 and 165000 located in the Resource Recovery & Waste Management Fund 1930, Public Works Department (054). These costs are specifically for: (1) Shop Overhead; (2) Supervision & Facility Labor Overhead; and (3) Facility Overhead. The overhead rate is the ratio of the total actual number of labor hours associated with the operation of the SCRTS and the number of labor hours dedicated to handle commingled recyclable materials.

General Recycling Services Allocation – These are various costs accounted for in the Recycling Program/Cost Center (113300) that are associated with general recycling, and are not directly related to the curbside program (113301). They include costs for: (1) Facilities; (2) Supervision; (3) Equipment; (4) Fuel; and, (5) Depreciation. Certain adjustments are made to the total costs for costs previously allocated, such as for labor and equipment and vehicle maintenance. An overhead rate is applied to these adjusted costs to calculate the portion attributable to commingled recycling (28% in 2010). The overhead rate is calculated based on the proportionate number of labor hours at the SCRTS pertaining to commingled recyclables processing in relation to the total labor hours at SCRTS for all recoverable materials, including greenwaste, C&D, and other recycling activities.

Program Promotions – These are costs incurred for promoting recycling in the County. They are accounted for in line-item account number 7530 within the Curbside Recycling Program/Cost Center (113301). The costs include radio, television and print media advertisements. Any portions directly associated with North County are not included.

Departmental Overhead Costs

Departmental administration costs for all activities contained within the Resource Recovery & Waste Management enterprise fund are accounted for in the Administration Program/Cost Center (#105000). Also included in this program is the fund's share of County-wide overhead costs.

For purposes of calculating the net revenues, a share of all costs in the Administration Program (105000) are allocated (off-line) to the Curbside Recycling Program. This is done by dividing the total direct costs associated with

commingled recyclables by the total fund costs. This percentage is then applied to the costs in the Administration Program to calculate the Curbside Recycling Program's share of departmental overhead.

It is important to note that costs for workers' compensation and liability applicable to the entire fund are **not** allocated to the individual programs/cost centers within the Resource Recovery & Waste Management Fund; rather, the fund's entire share of these costs, allocated from internal service funds, are accounted for in the Administration Program. Therefore, adjustments need to be made before the calculation of overhead as described above, as follows:

- a. Calculate the costs for workers' compensation (w/c) and liability insurance attributable to the Curbside Recycling Program (CRP). Since workers' compensation charges are essentially based on salary costs, the calculation of the workers' compensation costs attributable to the CRP applies the same ratio of total workers' compensation costs to total salaries in the fund to the Curbside Recycling Program. For liability insurance, the allocation is based on the total operating budget by program.
- b. Recalculate the direct costs of the Curbside Recycling Program by adding its share of workers' compensation and liability costs and described above.
- c. Reduce the total costs for w/c and liability insurance for the portions attributable to all other programs in the fund so that only those costs directly attributable to Administration are left.
- d. Calculate departmental overhead as described earlier using the adjusted amounts.

Costs for Disposal of Residual

A portion of commingled recyclables delivered to Gold Coast cannot be processed due to problems such as contamination and excess moisture, rendering it unmarketable. The unusable portion is transported back to the County-owned and operated Tajiguas Landfill.

In recognition of the fact that residual material consumes "air space" at Tajiguas and therefore represents an unfunded cost, a cost equal to the per ton tipping fee will be assigned to the portion of commingled recyclables returned as residual, equal to an average of the total amount of commingled recyclables delivered to Gold Coast for processing (10% in 2010).

REVENUES SUBJECT TO SHARING

Payments from Contracted Materials Recovery Facility

Payments are received monthly by the County based on 90% of the value of materials delivered to the Gold Coast facility. These payments represent approximately 95% of revenues subject to allocation among participating agencies.

SCRTS Tipping Fees

In addition to payments received by the County from Gold Coast from the sale of recyclable materials, the County receives tipping fees at the SCRTS for greenwaste, commingled recyclables and trash delivered by the participating jurisdictions' contracted haulers and other private haulers. The portion of the fees attributable to commingled recycling program is determined by calculating the percentage of commingled recyclable material (by weight) to the total tonnage of all materials processed. This percentage is applied to the total revenues generated by the SCRTS (tracked separately).

Interest Income

Interest is earned on restricted cash held for Closure Post Closure costs as well as cash received from operations. The portion of interest earned from operations (46.74% of total interest earned) is further reduced for the earnings generated by cash held in connection with outstanding certificates of participation ("COP's"). This adjusted interest income is used as the base for calculating interest income attributable to commingled recycling. The percentage calculated and applied to determine the percentage of materials represented by commingled recyclables (4.09% in 2010) is applied to the remaining interest income allocable to commingled recycling.

ALLOCATION OF TONNAGE TO PARTICIPATING AGENCIES

Since it would be too cumbersome to determine the actual tonnage delivered and processed (net of residual) by Gold Coast by participating agency, the allocation of tonnage is based on the weight logged by the scales at the SCRTS by truck, which can be assigned to the appropriate agency.

A report generated by the SCRTS shows total tons processed for each agency. In Fiscal Year 2009-10, for example, the total weight logged by the scales was 21,932 tons, of which 11,185 originated in the City of Santa Barbara.

FISCAL YEAR 2010 REVENUE SHARING DATA AND CALCULATIONS

Attached to this exhibit is a summary of the costs and revenues associated with the South Coast Curbside Recycling Program, based on data from the fiscal year which ended on June 30, 2010, to be shared during the fiscal year ending on June 30, 2012.

South Coast Curbside Recycling Program Costs and Revenues
Fiscal Year 2009-10

Total Incoming Tons		21,932
90% Gross Sales Revenue per Ton		\$ 117.80
Processing Fee / Ton		\$ 71.88
County Costs		
Net Cost of Operations	\$ 0.21	
Transportation of Residual	\$ 17.21	
Disposal of Residual	\$ 6.35	
Administrative Overhead	\$ 2.62	
Total County Costs		\$ 26.39
Subtotal of Processing and County Costs		\$ 98.27
Net Revenue per ton (Gross Revenue minus Processing Fee and County Costs)		\$ 19.53
Commingle Surcharge Revenue*		\$ 14.09
Net Gain/(Loss) per ton		\$ 33.62

* one-time surcharge assessed by each jurisdiction to compensate for a dramatic downturn in the recyclables market.



August 1, 2011

Mr. Robert Samario
Finance Director
City of Santa Barbara
735 Anacapa Street
Santa Barbara, CA 93101

Dear Mr. Samario:

Per our discussion at the City Council's Sustainability Committee meeting on Tuesday July 19, I am providing you with Republic Services' revised offer to process the City's recyclables at our Del Norte Regional Recycling and Transfer Facility for the balance of fiscal year 2012.

While this is an extension of our previous offer, we would like to reiterate the following, in addition to our increased offer of \$60 per ton:

- 1) \$60 / ton guaranteed payment to City
 - a. No processing fees
 - b. No transportation costs
 - c. No residual disposal costs
- 2) Transportation to Del Norte provided by Republic Services from the South Coast transfer station (or MarBorg C&D facility)
- 3) Recyclables loaded at transfer station (\$5 / ton handling fee that is charged by the County of Santa Barbara will be paid by Republic Services)
- 4) Tonnage from the City is approximately 10,087 tons for the remainder of the year, or 917 tons per month
- 5) Guaranteed term is August 2011 - June 2012
- 6) Full up-front payment to the City from Republic Services in the amount of \$605,220 upon execution of this offer
- 7) 90% diversion guarantee

I look forward to hearing from you.

Sincerely,

Stephen MacIntosh
General Manager
Del Norte Regional Recycling and Transfer Facility

Cc: Mayor and Council
Jim Armstrong, City Administrator
Matt Fore, Environmental Services Manager
Kristy Schmidt, Employee Relations Manager

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